



CHINA'S PROSPECTS FOR THE 1990S

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*Authors: Ronald E. Dolan
Ly H. Burnham
Graphics: Marla D. Woodson
Editor: Andrea T. Merrill*

*Federal Research Division
Library of Congress
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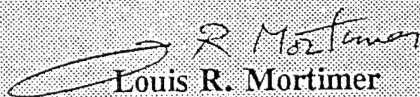
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Preface

This study describes the growth of China's economy since Deng Xiaoping set it on a course of market reforms and openness to the outside world in 1979, focusing particularly on the rapid growth of the early 1990s. The paper also assesses the effects of such major factors as population increases, foreign economic and trade relations, the adequacy of energy resources, and the reversion of Hong Kong to China on China's future economic prospects. In addition, it evaluates China's current defense capabilities and force projections and their likely effect on peace and stability, particularly in the South China Sea. Finally, it describes the current state of United States-China relations and the way these relations are likely to develop in the remainder of the decade.

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Introduction

In mid-1993 the Chinese economy was thriving, following a 12.8 percent growth rate in 1992. Paramount leader Deng Xiaoping had sounded the keynote for the renewed emphasis on economic liberalization in a spring 1992 inspection and speaking tour through the rapidly developing areas of southern China. The renewed call for stepped up market reforms was heard at the October 1992 Fourteenth Chinese Communist Party Congress. In March 1993, the Eighth National People's Congress affirmed that China's economy was a "socialist market economy."

The Chinese economy seems to have thrived on Deng Xiaoping's economic reforms. The gross national product (GNP), which had grown at an average rate of 6.2 percent from 1952 through 1980, sharply increased to 10.1 percent in the first half of the 1980s.¹ The rate decreased somewhat to 7.8 percent in the second half of the 1980s. But early indications were that in the 1990s China's GNP was experiencing even more vigorous growth than in the 1980s.

China's leaders were faced with major concerns, however. Relinquishing central control to allow for free operation of market forces fueled phenomenal growth, but it left the central government without the tools to contain runaway inflation. And, of equally serious concern to the Chinese leaders, a market economy made it more difficult to retain strict central political controls.

Reform and Opening Up

When Deng Xiaoping started China on the road to market economy reforms at the Third Plenum of the Eleventh Chinese Communist Party Central Committee in December 1978, the chaos of the Cultural Revolution (1966-76) and three decades of strict government economic controls had left China's economy poor and lifeless. But Deng and his associates had three major factors working in their favor: there was no severe macroeconomic crisis, so drastic measures were not required; there was a good agricultural infrastructure, although it lacked incentives; and Hong Kong provided a source of inspiration, expertise, and investment.² As this reform program evolved in the 1980s, it exhibited four distinct features:

- (a) Gradualism and Experimentation. Reforms were introduced over a period of years, and each new reform was tested before moving on to the next stage.
- (b) Partial Reforms. Specific elements of reform in various sectors of the economy were introduced while retaining the traditional plan in the remainder of the sector. For example, the two-tier pricing system set the prices of a number of consumer items by the market, but staple items such as grain remained in the planned pricing system.
- (c) Decentralization. Economic decision making was increasingly shifted from the central government to

local governments, enterprises, and individuals, enhancing microeconomic incentives and increasing public support for the reforms. This "responsibility system" was tested in the countryside and later extended to urban areas.

- (d) Self-Reinforcing Reforms. The success of reforms in one area created pressures for reforms in others.³

By 1990 the reforms were generally successful, especially in output and welfare, productivity, foreign trade, and reducing the role of the state.⁴ During the 1980s, GNP grew approximately 50 percent faster than in the pre-reform period, especially in the light industry and service sectors, causing consumption levels to more than double and removing more than 160 million people from poverty. Productivity, which had been close to zero prior to 1979, accounted for 3 to 4 percent of annual growth in the 1980s. Nonstate industry, virtually nonexistent before the reforms were initiated, employed nearly 100 million people and produced 45 percent of industrial output by 1990. Whereas savings and investments had been dominated by the state before the reforms, by 1990 savings were mainly generated by individuals and enterprises, and most domestic investments came from retained profits and banks. Foreign trade, which accounted for just under 10 percent of GNP in 1978, had risen to over 30 percent by 1990, and there were more than 20,000 Sino-foreign joint ventures. In 1990 agriculture's share of the gross domestic product (GDP) was 27.5 percent, down from 30.4 percent in 1980. Industry's share

also had declined from 49.0 percent to 45.3 percent. The share of services, however, grew significantly from 20.6 percent to 27.2 percent.

Economic Growth in the 1990s

The decade began with 5.0 percent growth in 1990, increased to 7.0 percent in 1991, and then rose sharply to 12.8 percent in 1992. Agricultural output grew by approximately 3.5 percent in 1992.⁵ Industrial growth in the first half of 1992 was an estimated 19.2 percent. Much of this increase came in the construction industry as a result of substantial investment in the infrastructure. Secondary industry grew by 17.5 percent, and primary and tertiary industries grew by 6.7 percent. Heavy industry grew by 20 percent, and light industry grew by approximately 15 percent. Growth in the output value of state-owned industries--12.8 percent for the first half of 1992--was slow compared with the 27.6 percent growth of collectively owned industries and that of other industries, mainly privately owned and Sino-foreign joint ventures, which grew by 43.8 percent. Retail sales increased by 14.1 percent. Overall inflation in the first three quarters of 1992 was 5.4 percent, but the consumer price index in the thirty-five major cities rose by a more substantial 10.4 percent.⁶ Guangdong, Jiangsu, Zhejiang, Shandong, and Hainan provinces continued their high growth rates of the 1980s, topping 20 percent in the first half of 1992. And

Shanghai municipality and Liaoning Province, where growth had been slow for the preceding several years, achieved increases of 19.3 percent and 13.3 percent, respectively, in the first half of 1992.⁷

China's foreign trade also experienced healthy growth in 1992. In the first half of the year, Chinese exports totaled US\$35.6 billion, a 17.1 percent increase over the same period in 1991.⁸ Direct exports to the United States amounted to US\$3.3 billion, or 9.2 percent of total Chinese exports. In addition to the direct exports, a substantial portion (the London-based Economist Intelligence Unit estimates as much as 60 percent) of China's US\$16.4 billion trade with Hong Kong was for re-export to the United States. Although China's calculations showed a US\$600,000 million deficit in bilateral trade with the United States, United States estimates for 1992 projected a US\$19 billion bilateral trade surplus for China, up from US\$12 billion in 1991.

China's trade with the rest of the world in the first half of 1992 showed a nearly US\$15 billion deficit. Trade with South Korea and Taiwan increased substantially in 1992. Although trade with South Korea was slightly in China's favor, China suffered a US\$1.8 billion bilateral trade deficit with Taiwan in the first half of 1992 because of remaining Taiwan restrictions on Chinese imports. Trade with Japan also fell into deficit as China imported US\$600,000 million more in goods and services from Japan than it exported to that country. Trade with Europe also

suffered a significant deficit. Exports to Germany, for example, actually declined by 6.4 percent.

Foreign Economic and Trade Relations

China can be expected to continue to take advantage of its cheap labor and land to build up labor-intensive industries and take over much of its neighbors' share of such exports as garments, footwear, and toys.⁹ This will likely be more than offset by China's imports of intermediate goods and higher-value capital goods such as synthetic fibers, steel, plastics, electronics, petrochemicals, and machinery. Steel imports in support of the construction industry also have grown significantly and can be expected to continue to grow in the near term.

In early 1993, business transactions of foreign companies and Sino-foreign joint ventures were severely inhibited by the three-tier currency exchange system: an official rate set at 5.7 yuan to the United States dollar; a rate capped at 8 yuan to the United States dollar in the 100 or so officially sanctioned swap centers in cities throughout China; and a rate topping 10 yuan to the United States dollar on the black market. No one was inclined to exchange dollars at the artificially low official exchange rate, and even if people were inclined to do business with swap centers, this became difficult because most of the dollars were diverted to the more lucrative black market.¹⁰

Foreign businesses were put into the difficult position of seeking out black markets to exchange their dollars, risking prosecution. On June 1, 1993, without official announcement, the State Administration for Exchange Control lifted the cap on foreign currency transactions in the swap centers, allowing supply and demand to determine the exchange rate. By the close of business on June 2, the exchange rate in the Shanghai swap center had reached 10.17 yuan to the United States dollar.

According to the Ministry of Foreign Economic Relations and Trade, foreign firms invested US\$11.6 billion in China during 1992.¹¹ Investments in 1993 appeared likely to exceed that figure. In the first quarter of 1993, foreign firms invested US\$3 billion, up 167 percent from the same period in 1992, and pledged US\$25 billion, up 347 percent.

Population and Growth Rate

China is a multiethnic country (the Chinese call it multinational) and the world's most populous nation. Based on the 1991 reported total population of 1.14 billion, estimates project that China will have 1.18 billion people with a growth rate of 1.4 percent by July 1993 (see table 1, Appendix). China is growing older, and the trend in the shift in the age structure is expected to continue throughout the 1990s. In 1992 the average age was 28.7 years, and the majority of the people were between fifteen and forty-nine years of age.¹² Children under

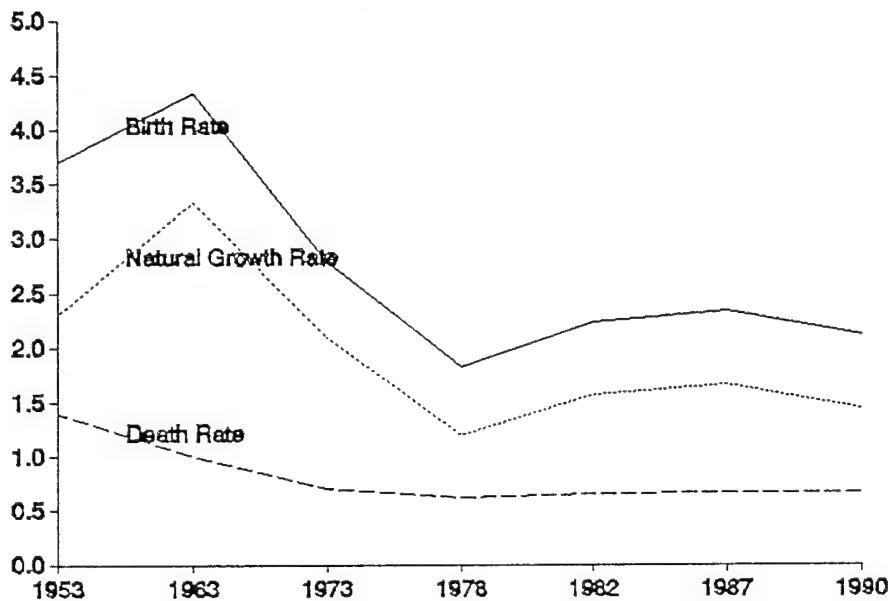
fourteen years of age represented only 27.1 percent of the total population, and persons over sixty-five years represented 5.7 percent. Ten years earlier, these age-groups accounted for 33.4 percent and 4.9 percent, respectively. In both the 1982 census and the 1990 census, males outnumbered females by a ratio of 106 to 100.

China's natural growth rate climbed in the 1950s. By 1963 it had reached 3.3 percent, resulting in an increase in the population to about 692 million people (see table 2, Appendix). Because of this increase, China instituted birth control programs aimed at reducing the birth rate and achieved a growth rate of 1.2 percent by the end of 1980.¹³ In 1982 China adopted a family planning policy and set a goal of limiting the population to 1.2 billion and the growth rate to less than 1 percent by 2000.¹⁴ People were admonished to adhere to a one-child per family policy--a policy that was later criticized for causing the population to age too fast.¹⁵ During the 1980s, however, the growth rate again turned upward to average 1.5 percent (see fig. 1). This occurred because more than 300 million women born in the 1960s and early 1970s reached child-bearing age and because the family planning policy was inadequately implemented in the countryside.¹⁶ Out of thirty provinces, municipalities, and autonomous regions, only eight provinces and municipalities strictly implemented the state birth control policy and attained zero growth. The other administrative divisions, with 78 percent of the total national population, have not strictly carried out

the birth control policy and have higher birth rates. In April 1989, China's population passed the 1.1 billion mark. Increased births will inevitably continue until the mid-1990s.

In 1992 China revised its population target upward to 1.294 billion people and a growth rate of 1.25 by 2000.¹⁷ This goal

Figure 1. Vital Statistics, Selected Years, 1953-90
(in percentages)



Source: Based on information from Statistical Yearbook of China, 1991, Beijing, Zhongguo Tongji Chubanshe, 1991, 80.

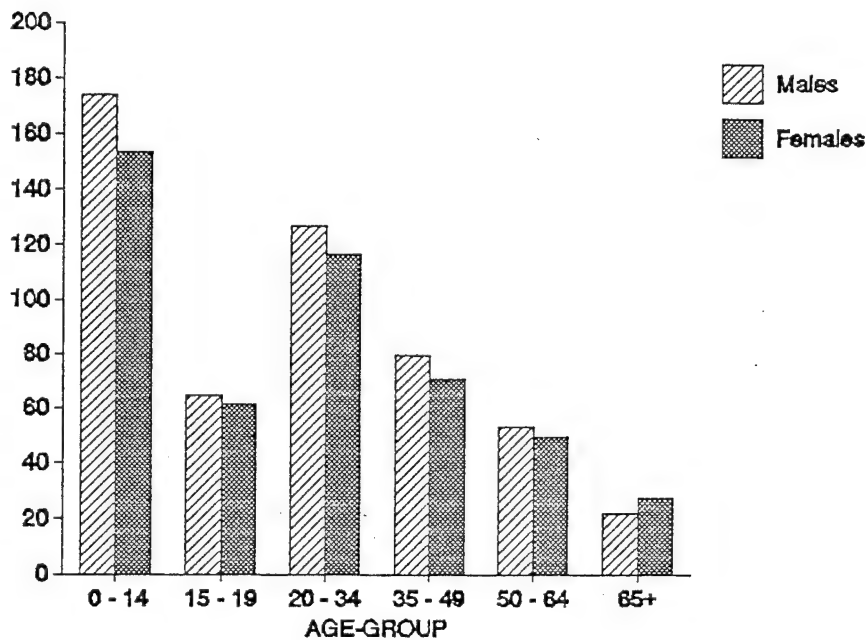
will be attainable only if the average annual growth rate of 1.4 percent can be maintained. It is unlikely, however, that such a rate can be maintained because China is in the middle of a baby

boom, and the practice of having more than one child persists, especially in rural areas, where 73.8 percent of the people reside. According to the 1990 census, there were about 306.7 million women in the child-bearing ages between fifteen and forty-nine, 23.4 percent more than in the 1982 census. About half of these 306.7 million women were between the ages of twenty and thirty-four (see fig. 2; fig. 3; table 3, Appendix; table 4, Appendix). If the population continues to grow at the average annual rate of 1.5 percent of the 1980s, there will be almost 1.32 billion Chinese by the year 2000 (see fig. 4).

The population will reach that figure unless China applies pressures for stricter birth control measures and facilitates a larger exodus of the population. In the spring of 1993, vasectomies were called for to introduce the "husband's responsibility."¹⁸ And in 1992, about 10,000 people left China with the blessing of local cadres.¹⁹ If the natural growth rate can be kept to less than 1 percent, the population will reach 1.65 billion by the year 2025, but the annual net increase will still be more than 13 million persons.²⁰

All females between fifteen and fifty-four years of age and all males between fifteen and fifty-nine are considered of working age. The workers' retirement age is fifty-five for females and sixty for males. According to the July 1990 census, Chinese of working age numbered 701.22 million, or 62.0 percent of the total population. In January 1991, only 647.20 million

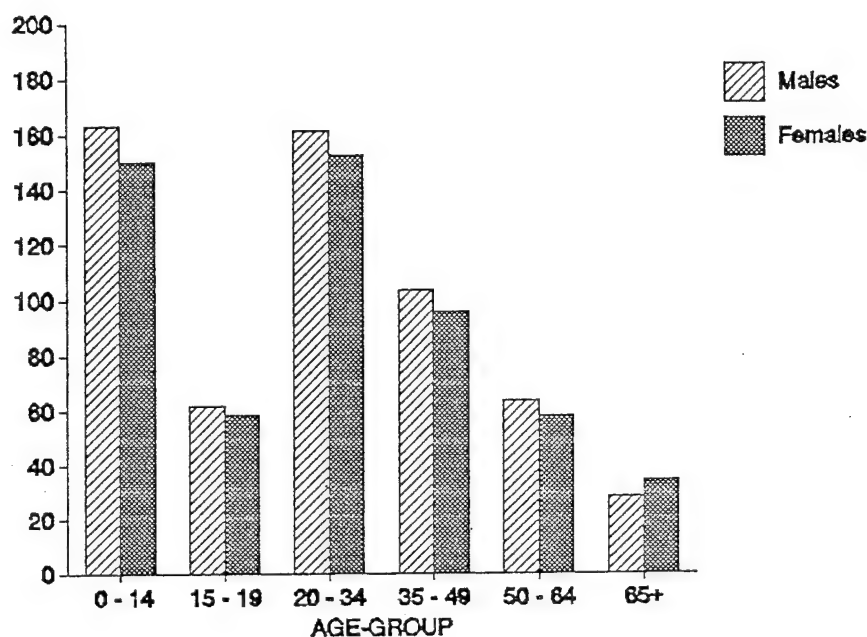
Figure 2. Population by Age-Group and Sex, 1982 Census
(in millions)



Source: Based on information from New China's Population, New York, Macmillan, 1988, 117.

people were reported gainfully employed, or 92.3 percent of the total working-age group.²¹ The 54 million persons not listed as employed probably included those in universities and military service, as well as people with disabilities or the unemployed. As the growth rate of the national population has decreased because of the family planning programs, the working-age group has continued to increase at an alarming rate--an average annual rate of 2.1 percent between 1953 and 1982 and 3.0 percent between 1982 and 1990.²² As a result, a large number of people are

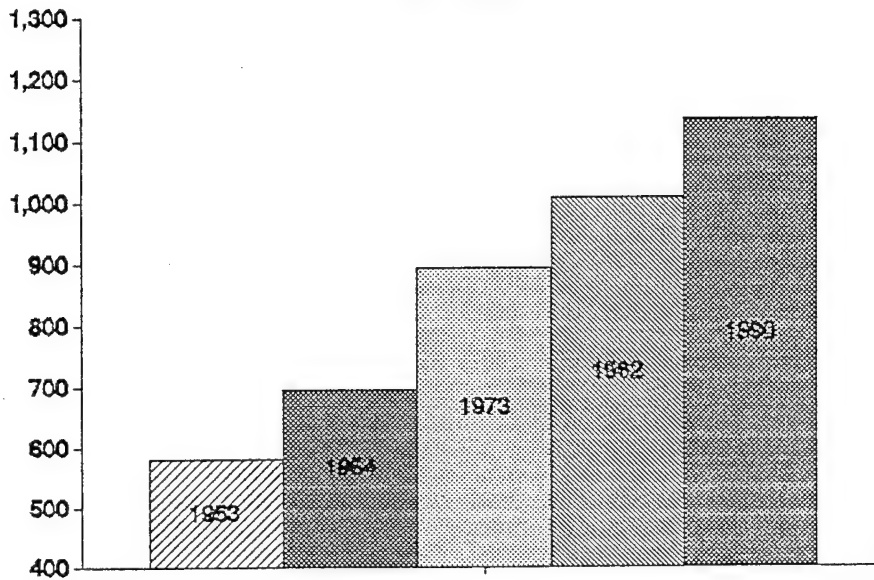
Figure 3. Population by Age-Group and Sex, 1990 Census (10 Percent Sample)
(in millions)



Source: Based on information from Statistical Yearbook of China, 1991, Beijing, Zhongguo Tongji Chubanshe, 1991, 91.

available for employment, especially in rural localities. Many rural people have come to urban areas in search of employment, causing a "labor tide." This influx exacerbates many urban problems, including the oversupply of the urban work force. The annual urban unemployment rate is about 2 to 3 percent.²³ The continuing population increase will have a seriously unfavorable economic impact during the 1990s if China cannot raise the per capita GNP (US\$307 in 1992) to the level of at least a moderately developed country.²⁴

Figure 4. Total Population, Selected Years, 1953-90
(in millions)



Source: Based on information from China, State Statistical Bureau, China: A Statistical Survey in 1986, Beijing, New World Press and China Statistical Information and Consultancy Service Centre, 1986, 25; and Statistical Yearbook of China, 1991, Beijing, Zhongguo Tongji Chubanshe, 1991, 79.

Hong Kong's Economic Growth

In late 1992 and early 1993, business confidence in Hong Kong deteriorated somewhat because of the running dispute between Hong Kong's Governor Christopher Patten and the Chinese government over the future makeup of the Hong Kong Legislative Council. In October 1992, Patten proposed legislation to broaden the democratic base of the Legislative Council before Hong Kong

reverts to China in 1997. China opposed this proposal by withholding its approval of funding that extended beyond 1997 for the construction of a new airport to serve Hong Kong and China's neighboring Shenzhen Special Economic Zone, as well as for two new Hong Kong port container terminals necessary for the regional entrepôt trade. Hong Kong businesses hope that this dispute can be resolved in 1993.

The 1993-94 Hong Kong budget has a projected deficit for the first time in ten years.²⁵ Further deficits are planned for budgets through the 1997 reversion. The deficit budgets are intended to boost consumer confidence by reducing taxes and fees and by paying for infrastructure development and increased services from the considerable reserves accumulated in the last nine years.

The manufacturing industry makes up a very small share of Hong Kong's GDP--16.7 percent in 1990.²⁶ There is no indication that it has grown significantly since then, nor is it likely to. The largest shares of Hong Kong's GDP were derived from foreign trade and hotels and restaurants (20.4 percent combined) and financial and business services (20.6 percent). The mix of Hong Kong exports was a further indication of the state of the Hong Kong manufacturing industry. Hong Kong's exports for the period from January to September 1992 were HK\$665.6 billion (the exchange rate in September 1992 was to HK\$7.78 to US\$1), a 21.9 percent increase from the same period in 1991. Most of the increase, however, came from the 30.7 percent increase in re-

exports; domestic exports rose only 2 percent. Preliminary figures for all of 1992 indicated that total exports were HK\$924.9 billion but that domestic exports made up only HK\$234.1 billion, or 25.3 percent of total Hong Kong exports. The bulk of Hong Kong's exports (HK\$690.8 billion) came from re-exports.

Hong Kong is being increasingly absorbed into China's economy and is particularly integrated with that of South China. Hong Kong imported HK\$257.1 billion in Chinese goods and services--a 37.3 percent share of total Hong Kong imports--in the first three quarters of 1992. These imports included food and water as well as the re-exports that drive the Hong Kong economy. The nearest competitor, Japan, only made up a 17.2 percent share of Hong Kong imports, and the United States only 7.2 percent.

Hong Kong's exports, heavily dependent on Chinese re-exports, increased 25.3 percent in 1992 but are expected to decrease to a lower but still respectable 20 percent in 1993 and 13.3 percent in 1994.²⁷ Private consumption is expected to grow by 6.5 percent in 1993 but is projected to drop to 4 percent in 1994. Growth in private investment also is expected to decrease because of uncertainties about post-1997 status. After growing by 7.5 percent in 1993, investment in 1994 is expected to grow only 3.5 percent, less than half the 1993 growth rate. All of these factors will cause Hong Kong's GDP growth to decrease from the estimated 6.0 percent in 1992 to 4.0 percent in 1993 and 3.4 percent in 1994.

Hong Kong also has invested heavily in Chinese ventures.

For example, when the China Travel Service sought to raise HK\$400 million for a 25 percent share in a subsidiary to operate theme parks and freight forwarding operations in China, it was oversubscribed considerably, for a market offering of HK\$150 billion.²⁸

Energy Production and Consumption

In 1990 China consumed 980 million tons standard coal equivalent (SCE) of primary commercial energy, or approximately 860 kilograms per person. Primary energy consumption grew an average of 5.1 percent in the 1980s. The energy and transportation sectors remained major obstacles to China's economic development. In 1990 heavy industry consumed 538.59 million tons SCE, or 79.7 percent of total industrial consumption, and light industry consumed 137.19 tons SCE, or 20.3 percent of total industrial consumption. The fact that most major energy sources are far removed from principal users is a source of serious problems. If one divides the country into six major regions--North, Northeast, East, Central South, Southwest, and Northwest--in 1990 the North was the primary producer of coal, and the Northeast and the East were the primary producers of oil. The highly industrialized East was the primary energy consumer, consuming approximately 80 million tons SCE more than it produced, and the Central South region consumed approximately 40 million tons SCE more than it produced. To make up for the

energy shortfall in the East and Central South, China found it more economical, because of inadequate domestic transport, to import coal and oil to supply these regions rather than redistributing energy sources within the country. It imported coal primarily from Australia, and it imported oil primarily from Indonesia but also from Oman, Iran, and Australia. It exported coal from the North and oil from the Northeast to generate revenues.

China first began large-scale oil exports following the 1973 oil crisis when the high price of oil made it an attractive source of foreign exchange to pay for badly needed foreign technology, machinery, and plants.²⁹ From 1975 through 1977, the world oil market leveled off, and so did Chinese oil exports. When increased Chinese need for machinery and equipment in the reform and opening up that followed the December 1978 Third Plenum of the Eleventh Party Congress coincided with another sharp rise in world oil prices associated with the 1979-80 oil crisis, Chinese oil exports again increased. From 1982 through 1985, almost all of the increased oil production was exported. But because oil prices dropped in the 1980s, reaching a low of US\$10 a barrel in 1986, China decreased oil exports and greatly increased imports for use in the coastal provinces. Yet China has been able to maintain a modest surplus for oil exports, and the Organization of the Petroleum Exporting Countries (OPEC) believes that China will be able to maintain this surplus into the 1990s. Some analysts have suggested that China will become a

net oil importer by the mid-1990s and a large importer by 2000. Others doubt this, pointing out that even if production does not increase sufficiently, the government will strictly control consumption to keep from accumulating a substantial foreign debt.

China's energy production and consumption are heavily weighted toward coal.³⁰ In 1990 about 74.2 percent of China's energy production and 76.2 percent of its energy consumption was from coal, up from 69.5 percent and 72.2 percent, respectively, in 1980. Crude oil made up only 19.0 percent of Chinese energy production and 16.2 percent of its energy consumption in 1990, down from 23.7 percent and 20.7 percent, respectively, in 1980. Coal and coal products also made up the largest share of final energy consumption in 1990 (54.9 percent). Crude oil and petroleum products made up only 14.9 percent of final energy consumption. Industry consumed the largest share of final energy (67.4 percent), while transportation only consumed 4.8 percent.

China's Eighth Five-Year Plan (1991-95) and Ninth Five-Year Plan (1996-2000) have long-term plans for increasing primary energy production from 1.047 billion tons SCE in 1991 to 1.189 billion tons SCE in 1995 and 1.318 billion tons SCE in 2000. Raw coal production is expected to increase from 778 million tons SCE in 1991, to 857 million tons SCE in 1995, and to 928 million tons SCE in 2000. Crude oil production is expected to increase from 199 million tons SCE in 1991, to 207 million tons SCE in 1995, and to 228 million tons SCE in 2000. This is intended to more than offset the expected increased demand. With proper planning,

full utilization of domestic resources, and improvement in the transportation infrastructure, China need not be overly concerned about vulnerability to a world oil embargo. In fact, it could actually profit from such an embargo through increased oil exports.

Defense Capabilities

Although the defense budget in the 1980s grew at a modest rate, its value in United States dollars actually decreased. This situation changed when the United States dollar value of the Chinese defense budget increased from US\$6.11 billion in 1991 to US\$6.76 billion in 1992. However, the official defense budget was only part of total military spending, as many military purchases and expenditures were hidden in other parts of the state budget. In 1990 the official defense budget was US\$6.13 billion, but estimates of actual military spending ranged from US\$11 billion to as much as US\$23 billion.³¹

The defense industry was capable of satisfying most of the armed forces requirements for weapons and equipment, ranging from light arms and ammunition to combat aircraft and ships to nuclear weapons and ballistic missiles. To earn the money to acquire weapons and technology not yet in the defense system, China converted much of the excess capacity of its defense industry to civilian production in the 1980s. By the end of 1992, about 70 percent of the defense industry had shifted to civilian production.³² In the late 1980s and early 1990s, China also

greatly increased its foreign military sales (FMS). Whereas much of China's arms sales has consisted of small arms and ammunition sold to poor nations and revolutionary groups at bargain prices, China has also exported sophisticated weapons, including tactical and even ballistic missiles.³³ China has given assurances that it will abide by the guidelines of the Missile Technology Control Regime, but this is not expected to stand in the way of deliveries on already existing contracts, including suspected orders from Iran and Syria.

China is striving to upgrade its naval forces. Older Anshan-class destroyers have been removed from the order of battle and are being replaced by the Jiangwei-class frigate and the Luhu-class destroyer. Approximately fifty of the eight-four old Soviet Romeo-class submarines are believed to have been removed from the order of battle, but a Han-class nuclear-powered submarine, the fifth of this class, and two more Ming-class diesel submarines have been added. Older Soviet-type missile craft are expected to be replaced by Houang-class craft. Although the lack of an aircraft carrier to extend air coverage is a major deficiency in the Chinese order of battle, there has been no confirmation to the widespread rumors that China is bidding on the aircraft carrier under construction at Nikolayev in Ukraine.³⁴

China also is striving to improve its air force capabilities. In 1992 it obtained badly needed in-flight refueling technology from Iran and purchased twenty-four Su-27

fighter aircraft from Russia.

Some of China's neighbors have been concerned about China's increased defense budget and improved military capabilities in the absence of any clearly defined threat. China no longer perceives a threat from Russia, and military activity along the border with Vietnam has been replaced by vigorous trade.

The main area of tension is the South China Sea. The Parcel (Xisha in Chinese) Islands and the Spratly (Nansha in Chinese) Islands near the main shipping route from the Indian Ocean are believed to have rich mineral deposits.

Chinese military involvement in the South China Sea began with the January 19, 1974, air and naval attack on South Vietnamese forces garrisoned in the Parcel Islands.³⁵ China occupied the Parcel Islands and claimed that archipelago along with the Spratly Islands. Five other governments (Vietnam, the Philippines, Malaysia, Taiwan, and Brunei) contested China's claim to all or part of the Spratly Islands, but none took military action to back its claim until March 1988, when China took control of six islands of the group to set up a weather station sponsored by the United Nations Educational, Scientific, and Cultural Organization (UNESCO). In a brief naval engagement, China sank three Vietnamese transport ships, killed seventy-two Vietnamese seamen, and took nine prisoners. In July 1992, China again took advantage of Vietnam's weakness to seize two more atolls claimed by the Vietnamese, and in September of that year China positioned an oil rig in Vietnamese-claimed waters. In

early 1993, no country in the area appeared willing or able to stand up to the Chinese navy. If the Chinese have any weakness in the area, it is their difficulty in maintaining an air presence. Improved in-flight air refueling capabilities for its aircraft out of the large airbase in the Parcel Islands or an aircraft carrier for its South China Fleet would remedy that situation--both expected within the next few years.

Economic Prospects

In early 1991, China released both the Ten-Year Development Program and the Eighth Five-Year Plan (1991-95).³⁶ The Ten-Year Development Program is concerned with long-term problems, whereas the Eighth Five-Year Plan proposes medium-term measures with long-term objectives. The overall focus of both plans is on continuing the economic reforms that began in the 1980s--a balanced industrial structure, market reforms, and openness to the outside world. Stability is the overriding consideration. However, whereas the Ten-Year Development Program foresees the need to allocate more resources to agriculture, basic industries, infrastructure, education, and science and technology, neither plan proposes specific solutions to the most likely causes of instability--widespread unemployment, growing income disparities, and persistent budget deficits.

The Eighth Five-Year Plan sets five specific tasks for the 1991-95 period: to develop a multiownership system *with public*

ownership predominating; to intensify enterprise reform; to accelerate the pace of price reform, solve the dual-track price system, and set up markets; to improve the macroeconomic control system by revamping tax distribution and enhancing central bank functions; and to accelerate reform of the social insurance and housing systems. The plan calls for a 6 percent per annum growth in GNP--much lower than in the 1980s--so as not to fuel inflation and overtax the infrastructure.

When the Eighth National People's Congress convened in March 1993, the primary economic tasks remained the same, but specific goals were modified to reflect the current state of the economy. The 12.8 percent GNP growth rate in 1992, and the average annual growth rate of 7.9 percent for the previous five years, led economic planners to revise the planned growth rate for the 1990s from 6 percent to 8 or 9 percent.³⁷ The great increase in the proportion of prices determined by the market (80 percent, up from 50 percent in 1987) and the elimination of subsidies also raised expectations for increased production in other areas. For example, grain production was expected to reach 475 million tons, coal output 1.3 billion tons, steel output 94 million tons, and power industry generating capacity 65 million kilowatts by 1997. The 1993 budget allocated 20.5 billion yuan more in expenditures than in revenue. Expenditures for education rose 9.8 percent, and those for science and technology rose 10.8 percent. The deficit spending on capital construction was expected to be funded by issuing treasury bonds and borrowing from banks.

Foreign loans in 1993 were expected to yield 26.9 billion yuan, and the treasury was expected to issue 37 billion yuan in bonds.

In the first quarter of 1993, the economy grew at an annual rate of 13 percent, much faster than even Chinese economic planners had expected. Inflation rose from 5.4 percent to an officially forecast 6 percent, but retail prices in most cities increased an average of 15.7 percent over the first quarter of 1992.³⁸ Despite this growth, China experienced a trade deficit for the first time in four years. This deficit, occurring in the first four months of 1993, was attributed by a Chinese trade official to lagging exports caused by many exporters being lured away from the export market by the booming domestic demand.³⁹

China's booming economy was made to look even rosier in a May 1993 International Monetary Fund (IMF) report that shifted from measuring each country's output by valuing its goods and services in dollars, using international exchange rates, to calculating what goods and services a country's currency will buy, compared with the purchasing power of other countries' currencies.⁴⁰ According to this reckoning, China's 1992 production of goods and services increased from US\$400 billion to US\$1.7 trillion, and per capita income increased from US\$370 to US\$1,600, moving the Chinese economy from tenth in the world to third, only slightly below Japan. Using these figures, the World Bank estimates that if China's prodigious growth continues, the combined economies of China, Hong Kong, and Taiwan, referred to as Greater China, will be larger than the United States economy

in less than a decade. Aware of the far-reaching effect that this new appraisal could have on its eligibility for international aid programs--in which per capita income is an important factor in determining assistance--Beijing immediately disputed these calculations, saying that China's per capita GDP and living standards will not catch up with the developed countries for decades.⁴¹

In May 1993, China's economic planners indicated their concern that the economy might be growing too fast.⁴² China's State Statistical Bureau figures showed that GDP had grown by 14.1 percent in the first quarter of 1993, much higher than the planned 8 percent growth and even higher than the 12.8 percent growth in 1992. Inflation too was up significantly, 8.6 percent nationally and 15.7 percent in the cities. In an attempt to slow this growth, the People's Bank of China, the central bank, raised interest rates on loans an average of 0.82 percent to 9.36 percent and raised interest rates on deposits an average of 1.19 percent to 8.08 percent. Many suspected that this was too little too late to have a significant effect on economic growth. The World Bank has indicated that interest rates must be raised by a least five percentage points to win depositors back, and other economists have questioned whether decentralized control and greater privatization have left the People's Bank of China with insufficient macroeconomic controls to rein in the economy.

China's economic planners seem to be aware of most of the problems likely to affect economic development through the

1990s.⁴³ Although the 1997 Hong Kong reversion will undoubtedly require some political adjustments, the Hong Kong economy, already closely associated with the economy of South China, is expected to be integrated into the Chinese economy relatively smoothly. Hong Kong's modern and highly developed financial, trading, and market systems should give further impetus to the Chinese economic growth.

The effect on the economy of China's huge and growing population has long been a concern of China's economic planners. People of working age, already numbering over 700 million in the 1990 census, are expected to increase by more than 200 million during the 1990s. Even with natural attrition, China can expect to have to provide at least 170 million more jobs.

Transportation will continue to be a serious drag on the Chinese economy. A huge investment will be required to upgrade, expand, and develop the railroad and highway systems. This investment will not produce short-term results. Yet, if economic planners do not take the long view and invest heavily in the transportation sector, it certainly will remain a major obstacle to economic development.

Although exports are very important to the economy, especially in the coastal areas, a large country and a large economy such as China's cannot expect to be driven by exports as are the economies of many of its smaller neighbors. Nonetheless, exports can be expected to continue to provide outlets for a number of labor-intensive industries. Exports, especially from

coastal cities and special economic zones, will continue to provide important foreign exchange to pay for foreign technology and imports of steel for construction, as well as for automobiles and technically advanced machinery that Chinese industry cannot yet provide. As China moves toward a market economy, greater emphasis must be placed on developing the domestic consumer market.⁴⁴ Not only must China strive to meet current consumer demand for food, telephones, small motor vehicles, and household appliances, it also must design new high-technology, high-quality products in anticipation of future demands.⁴⁵

China has placed great stock in entering the General Agreement on Tariffs and Trade (GATT), not only for political status but also for the support that it expects that it will provide in trade negotiations.⁴⁶ The United States and the European Community are expected to delay China's entry until China moves closer to a full market economy and uniformly publishes trade regulations. Even after China's eventual admission, the United States and the European Community can be expected to make provisions to limit the large influx of cheap manufactured goods likely to come from China.

United States-China Relations

Since normalization of United States-China relations in 1979, the main issues in the relationship have been Taiwan, human rights, strategic relations, and economic and cultural ties.⁴⁷

The establishment of relations between Washington and Beijing required both sides to make accommodations in their approach to Taiwan. Washington had a strategic relationship with Taipei, which included a military treaty and the stationing of troops in Taiwan, but it was required to abrogate the treaty and remove its troops when it recognized Beijing as the government of China. China, for its part, had to accept that the United States retained a special strategic interest in an area that China considered part of its country and an internal affair. The normalization agreement left many issues unresolved. The 1982 communiqué between the United States and China on arms sales to Taiwan, although subject to different interpretations by the two sides, went a long way toward alleviating the tensions over the thorny issue of United States arms sales to Taiwan. By the late 1980s, the political situation in Taiwan and relations between Taiwan and the mainland had evolved to such an extent that when in August 1992 President George Bush announced the sale of advanced F-16 fighter aircraft to Taiwan, it was not seen as a major obstacle to United States-China relations.⁴⁸

By the 1990s, human rights had become a major concern. In the early days of relations between the United States and China, the issue of human rights in China was overshadowed by other considerations. But in the 1980s, the great economic advances accompanied by only limited political liberalization had raised the expectation of Chinese dissidents and their foreign supporters. When Chinese authorities violently suppressed

demonstrators in and around Tiananmen Square in June 1989, the issue of human rights became a major deterrent to United States relations with China. The Chinese authorities, for their part, strongly objected to United States criticisms and sanctions and considered them dangerous interference in internal Chinese affairs.

In the 1970s, the basis for the rapprochement from both Washington's and Beijing's perspective was strategic. Each hoped to use the other against their common adversary, the Soviet Union. By the mid-1980s, both the United States and China had improved their relationship with the Soviet Union. And with the breakup of the Soviet Union, United States strategic considerations in the 1990s have shifted to nuclear proliferation and resolution of regional conflicts in such areas as the Persian Gulf, Cambodia, and the former Yugoslavia in conjunction with other United Nations forces. China is believed to have provided technology and some equipment to several countries attempting to develop nuclear weapons, including Argentina, Brazil, Iran, Iraq, Libya, North Korea, Pakistan, and Syria.⁴⁹ China also has been extremely active in selling ballistic missiles, missile technology, and manufacturing technology to nations attempting to acquire a nuclear capability. However, in March 1992 the National People's Congress ratified the Treaty on the Nonproliferation of Nuclear Weapons. China also has agreed to adhere to the Missile Technology Control Regime. China's compliance with the Treaty on the Nonproliferation of Nuclear

Weapons will be monitored, and, although the Missile Technology Control Regime has no binding force, the United States and other nations will be closely watching China's missile sales.

In the United Nations, the United States and China have each pursued their own interests. On issues of major importance, such as North Korean nuclear weapons development and Cambodian peacekeeping, China's active support has been crucial to attaining United States interests. In other areas, such as the Persian Gulf War, China has not stood in the way of United States objectives.

In the late 1980s, as trade between China and the United States picked up and began to shift in China's favor, the trade balance became a major issue between the two countries. United States manufacturers, especially in the textile industry, became concerned about competition from Chinese goods and sought to limit Chinese imports. Other sectors of the United States economy sought to further open Chinese markets to United States products. In the early 1990s, this issue centered on China's most-favored-nation (MFN) trade status with the United States--a status that essentially would continue to extend to China the same treatment that is granted to most other United States trading partners.⁵⁰ Since the Tiananmen Square incident in June 1989, each time that China's MFN status has come up for review, members of the United States Congress have called for China's MFN status to be linked with issues other than bilateral trade, such as China's human rights performance and weapons exports.

This issue arose once again in 1993. President Bill Clinton had a June deadline for deciding whether to recommend that China's MFN status be rescinded, be renewed with conditions, or be renewed unconditionally. There was little or no sentiment for completely rescinding China's MFN status. Human rights groups recommended that the MFN status be renewed only on the condition that China improve its human rights record. Business groups, concerned about their investments in China and opportunities to profit from China's booming economy, recommended that China's MFN status be renewed without conditions. Other groups recommended that the MFN decision focus on trade issues and that human rights and weapons issues be left to another venue.

In the end, President Clinton decided to recommend that China's MFN status be renewed for one year on the condition that within that year China show "significant progress" on such human rights issues as the release of political prisoners, ensuring humanitarian groups access to prisons, and respecting human rights in Tibet.⁵¹ Although Chinese officials welcomed the renewal of China's MFN status, they strongly objected to any possibility of conditions being tied to future renewals. Both the Ministry of Foreign Affairs and the Ministry of Foreign Trade and Economic Cooperation issued official protests of the conditions associated with the renewal.⁵²

During the remainder of the 1990s, there are a number of possible scenarios for United States-China relations, from the hostile confrontation that the two nations experienced in the

1950s and 1960s to even friendlier relations than they have experienced in a number of years. The greatest likelihood is that in the near term, China and the United States will continue to pursue their own interests, giving proper consideration to the importance of the other. Where those interests differ, they will strive to resolve the differences in the proper diplomatic and economic channels.

Appendix

- Table 1. Population Distribution by Sex and Growth Rate,
Selected Years, 1953-91
- Table 2. Vital Statistics, Selected Years, 1953-90
- Table 3. Population by Age-Group and Sex, 1982 Census
- Table 4. Population by Age-Group and Sex, 1990 Census

Table 1. Population Distribution by Sex and Growth Rate,
Selected Years, 1953-91
(in millions)

Year ¹	Males	Females	Total	Growth Rate ²
1953	300.82	279.78	580.60	2.3
1964	356.52	338.06	694.58	2.8
1973	458.76	433.35	892.11	2.1
1982	519.42	488.76	1,008.18	1.6
1990	584.95	548.73	1,133.68	1.4
1991	589.04	554.29	1,143.33	1.4

¹ Census population data for all years except 1973 and 1991.
July 1 for all years except 1991 (January 1).

² In percentages.

Source: Based on information from China, State Statistical Bureau, China: A Statistical Survey in 1986, Beijing, New World Press and China Statistical Information and Consultancy Service Centre, 1986, 25; and Statistical Yearbook of China, 1991, Beijing, Zhongguo Tongji Chubanshe, 1991, 79.

Table 2. Vital Statistics, Selected Years, 1953-90
(in percentages)

Year	Birth Rate	Death Rate	Natural Growth Rate
1953	3.70	1.40	2.30
1963	4.34	1.00	3.33
1973	2.79	0.70	2.09
1978	1.82	0.62	1.20
1982	2.23	0.66	1.57
1987	2.33	0.67	1.66
1990	2.11	0.67	1.44

Source: Based on information from Statistical Yearbook of China, 1991, Beijing, Zhongguo Tongji Chubanshe, 1991, 80.

Table 3. Population by Age-Group and Sex, 1982 Census
(in millions)

Age-Group	Males	Females	Total	Percentage
0-14	173.85	163.41	337.26	33.5
15-19	64.42	61.58	126.00	12.5
20-34	126.77	116.42	243.19	24.1
35-49	79.67	70.60	150.27	14.9
50-64	52.83	49.35	102.18	10.1
65+	21.88	27.40	49.28	4.9
TOTAL	519.42	488.76	1,008.18	100.0

Source: Based on information from New China's Population, New York, Macmillan, 1988, 117.

Table 4. Population by Age-Group and Sex, 1990 Census*
(in millions)

Age-Group	Males	Females	Total	Percentage
0-14	163.17	150.35	313.52	27.7
15-19	61.81	58.59	120.40	10.6
20-34	161.45	152.50	313.95	27.8
35-49	103.73	95.61	199.34	17.6
50-64	63.50	57.98	121.48	10.7
65+	28.72	34.47	63.19	5.6
TOTAL	582.38	549.50	1,131.88	100.0

* Figures based on 10 percent sample.

Source: Based on information from Statistical Yearbook of China, 1991, Beijing, Zhongguo Tongji Chubanshe, 1991, 91.

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